TOWN OF LEXINGTON

SCHOOLS FINANCIAL REVIEW COMMITTEE

INTERIM REPORT

APRIL 11, 2007

EXECUTIVE SUMMARY

Our committee was formed in January, 2007 with a fairly broad charge – to review the financial systems, polices and procedures of the Lexington School Department and assess their adequacy to meet the needs of the Superintendent, the School Committee and the Lexington community in preparing, approving and monitoring the school budget and finances (Appendix A). Although our initial focus, as set by the School Committee, was to complete work on two specific areas that had been recent concerns, the committee felt that our work would be better served by obtaining a broader understanding of the overall school financial functions and their relationships to other related groups in the School Department (Human Resources, Student Services, etc.) before being able to make specific recommendations or endorsements in some of those areas. We also realized early on that it was going to take a considerable amount of time to perform our charge properly. The goal of this first interim report is to be informative, provide a status of our work to date, and outline the scope of the work required.

Our first working meeting was on February 1st, and we have met an additional five times over the past two months for approximately 2 hours each. This report provides our initial observations from this limited time. Overall, we recognize that there are several areas for improvement, but have been impressed with the skills and plans of the new Assistant Superintendent for Administration and Business, who has already begun to address some of the more pressing needs. We realize that there needs to be more exploration, thought and deliberation, not only in the some of the areas covered but, also in a number of areas that we have yet to discuss. We are prepared to complete our charge and look forward to providing the School Committee and the Town of Lexington with our complete report in the future.

CREATING A CONTROLLED ENVIRONMENT

As it is with any organization, the establishment of an effective control environment starts at the top. The Senior Leadership (School Committee and the Superintendent) sets the tone for the entire organization and must consistently support, reinforce and invest in its commitment to complete and accurate financial controls and reporting. The control environment is the foundation of an organization's internal control and creates the proper culture that fosters this mission. Without it, all other processes and procedures will be rendered ineffective. Our initial impression is that the weaknesses in the control environment underlie many of the issues we've been asked to review.

Such an environment takes time to develop, implement and advance. Unfortunately, there have been a number of changes of not only the leadership of the School system but also some of the key financial personnel in the past few years. And each year's elections bring potential changes that come in the composition of the School Committee. Both situations create changing priorities and challenges to meet the then current Senior Leadership's agendas.

The committee endorses the School Committee's recognition that a standard set of guidelines for financial and information reporting is needed, which was integral to developing our charge. Our continued work will be to recommend a standard that will be

consistent for now, and in the future, so that it will become institutionalized in the school financial systems, regardless of who is in the Senior Leadership positions. Specific observations are detailed in the body of the report.

COMMITTEE MEMBERSHIP

- Robert Addelson, Comptroller/Assistant Town Manager for Finance, Town of Lexington;
- Robert E. Boudreau, Jr., CEO (and former CFO) The Winter Wyman Companies;
- Mary Ellen N. Dunn, Assistant Superintendent for Finance and Business, Lexington School Department;
- Thomas V. Griffiths, Vice-Chair, School Committee;
- Jennifer Kraft Hewitt, Operations Director, Executive Office for Administration and Finance, Commonwealth of Massachusetts; and
- Ravi K. Sakhuja, School Committee.

- David G. Kanter, former Comptroller at Hanscom Air Force Base, while not a member of this committee, played a significant role in discussions as the liaison from the Appropriation Committee.

With the assistance of Rob Addelson, we developed a base framework for what an ideal fiscal structure would look like for the schools – which would parallel one for just about any organization with revenues and expenses. That structure is sketched out below.

CYCLICAL NATURE OF BUDGET PROCESS

BUDGET DEVELOPMENT
Sources of Funding

General Operating
   Budget

Capital Budget

Grants

Revolving Funds/
   Donations

Student Activity Funds

**Management
Information**

BUDGET MONITORING
Expenditures/Process

Purchasing
  -Central Policies
  -Encumbrances/Purchase
   Orders (POs)

Accounts Payable
  -goods and services
  -correct codes needed

Payroll
  -correct codes
   needed

The underlying framework of any sound fiscal model, and the foundation for the management information for all those involved, is the chart of accounts. In non-accounting terms, those are the categories of revenue and expenses—the income and spending—that are budgeted and tracked throughout the year. In deciding which categories to track, it is important to think through how they will be used, both by policy makers and those who will implement and track the budget. For instance, a family would not find a budget for "Mortgage" and "All Other" helpful, just as they likely would not want to track spending at the level of "Food – Bananas" and "Food – Cereal". The trick lies in establishing a balance between granular detail and higher categories that are meaningful.

For any organization with revenues and expenses, meaningful higher level chart of accounts elements include sources of funding, and general categories of uses approved in an annual budget. The chart of accounts elements help the organization report 1) how much in each type of funding has been received, and 2) how each distinct area of the budget is spending against its budgeted amounts. If the policies underlying the Budget Management portion of the cycle are strong and implemented effectively, they enforce

budget constraints and reduce surprises. Then the actual budget figures (along with any necessary within-year adjustments) allow an organization to track performance, inform the development of the next budget, and help managers and policy makers determine where additional investment is needed, or identify potential efficiencies. The more accurate the underlying data, the more accurate the next budget.

In building the chart of accounts, one should look to the future. That entails ensuring the sub-accounts provide the needed intermediate-level accounts into which more detailed information can summarized ("rolled-up") for overview reporting and analysis, yet have a structure that can be easily expanded as the need for new detail-level recording occurs – without requiring any onerous effort to re-state prior years' data. The chart of account must be designed with an eye to just what the organization will need from system reporting – both scheduled and on-demand – as an aid to meaningful management oversight.

The importance of the fiscal policies governing the use of funds cannot be over-emphasized. Expenditures come in two categories – payroll and goods and services. The majority of school expenses (77%) are for payroll. Each person on the payroll needs to be carefully coded so that their salary is charged against the correct budget categories (source of funding, program, function, 10-month or 12-month duration, expected hours, etc.), and there needs to be a clear hiring process, with a particular emphasis on formal, structured communication throughout – not just between Human Resources, Payroll and Budget.

Next come goods and services which go through a series of requisitions, contracts or purchase orders, invoices and payments. Policies and procedures are needed for each step of the way, and employees implementing them need to be fully trained so that they are consistently applying the policy and coding the transactions correctly against the chart of accounts. If procedures are followed, routine monitoring of the budget will quickly identify potential problem areas so that they can be addressed early before they become a full-fledged issue.

REALITY 2007

The condition of the Lexington School Department's fiscal management is recognized by all as not ideal. So far, what we see indicates there was no lack of wanting to improve, but rather staff that is overwhelmed with "putting out the fires" and not having the time or tools to make any big improvements to the underlying problems. The chart of accounts is cumbersome. Fiscal policies and procedures are not well established, and as staff is not adequately trained, there is not consistent adherence.

From all of our dealing with Mary Ellen Dunn, the new Assistant Superintendent for Finance and Business ("Assistant Superintendent"), the department has made an excellent choice. (She has only been in the job, full-time, since December 11, 2006.) While we have spent most of our time to date beginning to understand the scope of the department's financial activities, all of our members are very impressed with her talent and the depth of experience she brings to the department. Most significantly, she has repeatedly shown us that she recognizes the issues facing the department, has provided us

with insight into her plans for improving the operations, and is already hard at work to begin to implement changes to address the issues. The members of this committee acknowledge her efforts, appreciate her insight, and wish to support her and the rest of the school staff as best we can in implementing the needed changes. Together, we have explored the areas listed below, and will provide our initial observations at this early stage in the committee's work.

I. GENERAL BACKGROUND

The Town of Lexington uses a financial package called MUNIS (Municipal Information Systems from Tyler Technologies - http://www.tyler-munis.com/). The system is shared between the schools and municipal operations, with the Town Comptroller and Town Accountant responsible for ongoing maintenance. MUNIS is a comprehensive financial management software package which is structured to capture payroll, procurement, budgeting, payments, revenue and billing.

The school financial staff is headed by Mary Ellen Dunn, Assistant Superintendent, who oversees the activities of 5 employees within the Business Office with financial responsibilities. The Assistant Superintendent is the only direct, day-to-day supervisor with a primary responsibility for financial matters. However, she also is responsible for overseeing 4 other departments, for a total staff of 65 under her supervision. See Appendix B for the other varied functional responsibilities of the Assistant Superintendent.

In addition to direct staff, the finance office interacts with personnel in each school building. School principals are responsible for their own budgets, and for procuring supplies and services within allowable limits. It is often the school administrative support staff members who are responsible for coordinating the orders with the central business office and entering the necessary transactions into MUNIS. These individuals are also responsible for entering attendance into MUNIS. Approximately 60 individuals across the school department are responsible for entering information into MUNIS, including central office staff, school staff and program staff.

Student Services (which includes the Special Education Unit) also has a financial secretary which reports indirectly to the Business Office. The Special Education Unit serves students with Individual Education Plans (IEPs), and offers services within the district, contracted services that come to the district, and out-of-district placements for Lexington students whose needs cannot be met within Lexington's schools. Since the costs for these mandated services can add up quickly, coordination between Student Services and the Business Office is essential.

GENERAL OBSERVATIONS

1. Review Chart of Accounts – Per discussions with the Assistant Superintendent, the current chart of accounts used by the schools in MUNIS is simply not helpful. It does not conform to the budget approved by the School Committee without downloads into Excel and the use of Pivot Tables to summarize roll-up categories. The structure inhibits standardized or meaningful year-to-date budget reports or

management reports. It also does not provide for enforcing basic budget restrictions such as not allowing managers to exceed their budgeted levels. Unfortunately, timing does not allow the chart of accounts structure to be revamped until the FY2009 budget proposal is developed, but we greatly encourage the School Committee and Town Meeting to support a restructured budget at that point. The goal of any revision of the Chart of Accounts should be to have data in compliance with the Department of Education's (DOE) financial reporting requirements and the Uniform Massachusetts Accounting System. Many communities have been successful using MUNIS and having a unified Chart of Accounts that meets the internal needs of the Schools, integrates seamlessly with the municipal use of MUNIS, and directly supports DOE's reporting requirements. This will be a major component in achieving greater administrative efficiencies, appropriate control and needed management.

2. <u>Additional Central Office Resources are Clearly Needed</u> – After initial review, our observation is that with such a broad mandate, the central office staff is hard pressed to simply maintain current school financial operations. Yet the state of the schools' finances and the necessary work to be done will require a substantial amount of time. With staff already over-burdened, achieving those additional milestones within any reasonable time period is not realistic. Additional resources would include a mix of training, realigning current staff, additional staff, contractors, software, and potentially equipment. Such an investment will lead to a more effective central operation which will be better equipped to realize system-wide efficiencies and cost-avoidance opportunities.

II. PAYROLL

Over 77% of the overall school budget is for salaries and wages. Principals have the responsibility of hiring and firing the teachers and staff within their building. The superintendent hires and fires the principals. At the beginning of the school year, there are often dozens of hires per building, and it is difficult to track them centrally and ensure that adequate funding has been budgeted for salaries and benefits. Personnel changes continue during the school year – especially with regard to special education staff. Individual school-based control over facility-level hiring was a major tenet of the 1993 Education Reform bill, but such control presents challenges from a management perspective which must be recognized and addressed.

The School Committee negotiates with 6 unions within the school district, as follows:
<u>General Function</u>
1. Administrative Support Staff
2. Custodians
3. Technicians
4. Teachers and other Professional Staff
5. Instructional Assistants
6. Assistant Principals and Supervisors

Some of the positions are 10-month, some are 12-month; some are part-time, some are full-time. Base salary levels, general work rules, and annual salary increments are set by

the contracts. The payroll system tracks each employee's union affiliation, processes union dues deductions, and provides reports which inform negotiations. Ultimately, the system must implement the results of the contracts.

The majority of personnel are classroom teachers funded by the operating budget, and need no special treatment in the payroll system other than to track leave and attendance, and ensure that biweekly payroll is funded. However, some of the staff are fully or partially funded from non-operating funds, and their salaries must be coded so that they are charged against the correct funding source. It is possible to make adjustments after payroll has run, but that can be very time-consuming and is frowned upon for clouding the audit trail. It is far better to maintain the coding on an ongoing basis. In FY2007, coding has become an issue for Instructional Assistants who are oftentimes funded from grants.

PAYROLL OBSERVATIONS

1. <u>Research Position Control in MUNIS</u> – Position control would provide that only funded positions would be available to be filled. Currently, positions can be filled which were not included in the budget. This is not done maliciously, but out of confusion over the budget and the flurry of activity – mostly at the end of the summer, but also continuing throughout the year.

     Also, needs can often arise due to an approved IEP for additional instructional assistants or other personnel. These individuals are sometimes hired without notification to the Central Office which is maintaining budget projections. As part of a robust hiring process, Position Control would provide an automated notification of such hires for use in updating projections.

     The Assistant Superintendent is currently looking into utilizing position control, but it is unclear how long it will take to implement.

2. <u>Payroll Controls and Reconciliation Needed</u> – The current payroll set-up does not allow for a Payroll Control to be established and then tracked and measured against as the payroll is being assembled. The payroll staff should continue to work to fine-tune the available reports and clean-up payroll data that may be causing the discrepancies. Such efforts should allow for regular payroll projections to be as accurate as possible.

3. <u>Strengthen Communications around the Personnel Process</u> – Whenever personnel changes occur, consistent notification of key offices – human resources, payroll and business – needs to occur. There is a process to share information between Human Resources and the Business Office which has been a strong focus of both administrators, particularly around new hires. That focus should continue along with identifying further methods to strengthen the relationship between buildings.

III. PURCHASING

The remaining 23% of the school budget includes special education contract support and out-of-district placements, utilities, instructional supplies, materials and equipment, transportation, and other items such as facility maintenance and snow removal. All of

these items fall under the municipal procurement law, [Chapter 30B](#) of the Massachusetts General Laws. The Inspector General has provided a helpful outline of the rules under Ch. 30B, an excerpt of which can be found in Appendix C. Essentially, every purchase must follow specified practices to ensure that the best price is procured. The specific practice differs based on the dollar amount of the purchase, with different rules for purchases under $5,000, between $5,000 and $25,000, and over $25,000. It is up to individual municipalities to develop policies to implement these guidelines.

The Assistant Superintendent developed the flow chart in Appendix D to illustrate the process. In Lexington schools, it is up to the individual schools or departments to determine what they will purchase with their discretionary funds and from which approved vendor or cooperative bid the district has joined. The administrative support staff completes an electronic requisition form in MUNIS which is sent electronically to the Accounting Office which reviews the requisition and creates a Purchase Order (PO). The Assistant Superintendent signs off on each individual PO, which is then sent directly to the vendor. Only on receiving the signed PO should the vendor provide the requested goods or services. It is the current practice of the Business Office to turn PO requests around within 48 hours.

By having requisition information in MUNIS, the Business Office is able to track outstanding obligations at any point during the year, and identify outstanding bills as the year comes to an end. MUNIS provides budget managers with year-to-date budget reports which inform department heads how much they have left in their budgets.

PURCHASING OBSERVATIONS

1. Develop Clear Documentation and Training for Purchasing – The policies that were developed at one point have been lost, both in paper format and institutional memory. As a result, the administrative support staff is not consistently entering information as it should be entered into MUNIS. As documentation is developed, staff should be trained in implementing it.

2. Continue Enforcing the Signed PO Rule before Payment is Made – If vendors are not paid unless they have a signed Purchase Order, they will learn to not provide services until they receive a purchase order. In that way, the system will become self-policing.

3. Continue Expediting Requests for Purchase Orders – This will help dissuade people from placing "emergency" orders informally with PO to follow.

4. Shorten the Approved Vendor List – Enforcing the department's policies on purchasing is a shared responsibility between department employees and department vendors. Vendor communication is essential, and that communication is made easier if the overall list of active vendors is reduced from its current level of several thousand. Once the file is purged, employees can be steered to approved vendors, and requests to establish new vendors can be evaluated to identify potential opportunities for a bundled contract across departments.

5. Maximize the Education Collaborative Contract – The School Department is part of an educational collaborative which has a contract for educational supplies and

materials that can be used by all members. Because of the significant group discount and free shipping, employees should look to this contract first in comparing prices for supplies and materials. The Assistant Superintendent has other ideas for bundled contracts, including a combined maintenance contract for the school's copy machines.

IV. ACCOUNTS PAYABLE (AP)

Once goods or services are received, an invoice is generated by the vendor and the bill must be paid. For the schools, the Business Office should be the recipient of the invoice. The Business Office contacts the school or department to ensure that the service was performed or to obtain the packing slip if goods were delivered. That information is used to insure that the invoice received is legitimate and payment should be made. The invoice is then placed on warrant, a batch list is generated and delivered to the School Committee for review and approval. Once the School Committee approves each warrant, the warrants are delivered to the Town Comptroller for further review. Once he has signed off on the warrant, checks are issued to the vendors. The current payment process occurs on a bi-weekly basis.

ACCOUNTS PAYABLE OBSERVATIONS

1. Develop Clear Documentation for Accounts Payable – As with purchasing, documentation is needed to validate the documentation of delivery of goods or services, and to spell out what to do with invoices so that they are paid in a timely manner.

2. Reorder the Warrant Process – Insert the Town Comptroller's review prior to reaching the School Committee so that the Comptroller is not in the position of rejecting something from a technical perspective, which was approved by the School Committee. This allows the Town Comptroller and the Assistant Superintendent to address issues and concerns before they reach the School Committee and occupy their time and attention without resolution.

3. Develop a More Helpful Warrant Report – the School Committee currently receives multiple file folders which contain a list of bills which includes the vendor name and dollar value, along with the account balance for the account as a result of the entered transaction. Additional context should be included such as the amount budgeted vs. the amount available under the budget item, and other pertinent information that would make their review better informed and less of a ritual. Yet such a report is difficult to generate under the current systems.

VI. TRAINING

Once policies are developed in particular areas, staff need to be trained how to implement them. They also need to be trained to use the applications on their desktop, including MUNIS. Without such trainings, staff time will not be used efficiently, and implementation of the policies will not be consistent. Yet there is not a lot of time to either develop or attend trainings since the workload is so steep.

The Assistant Superintendent is using early dismissal days during the school year for training sessions with all of the school Administrative Support Staff. Topics include Online Ordering and attaching electronic quotes to the MUNIS requisitions, accessing accounts and purchase order information in MUNIS, and making best use of the Education Collaborative Classroom Supplies and Materials contract.

We also hope that this document will be useful to provide system-wide context for personnel on the importance of their seemingly mundane MUNIS entries.

TRAINING OBSERVATIONS

1. Aggressive Training Programs for Administrative Support Staff – Schedule mandatory training programs with the school administrative support staff to review different portions of the financial documentation. Such an approach should begin to realize results immediately, both in improved data entry and more consistent adherence to fiscal policies.

2. Implement "Train the Trainer" where Possible – As a means of developing staff expertise and stretching training funds, a staff member (other than the Assistant Superintendent) should be trained in particular aspects of MUNIS so that they can share that knowledge with the other staff.

3. Expand Use of FirstClass for Posting Fiscal Policies – The Assistant Superintendent is currently posting policies using a product called FirstClass, which is similar to an intranet site. We encourage her to continue this practice for ease of reference by staff.

IMMEDIATE CONCERNS

OPEN ENCUMBRANCES FOUND AFTER CLOSE OF BUSINESS – In July 2005, the school department uncovered $528,177 in invoices that were left unpaid from the previous fiscal year (FY2005). Shortly thereafter, they also discovered that there was a likely budget deficit for FY2006 of $824,219. In order to deal with these problems, the School Committee had to ask a Special Town Meeting for appropriations to cover both the FY2005 bills and the FY2006 deficit. Such a situation is unacceptable. While overruns in a current year's school budget may be driven by such factors as unforeseeable and uncontrollable special education expenses, a large, unanticipated overrun in a prior year's budget is unacceptable, not only on its face, but also because it soaks up current revenue/reserves and may lead to subsequent-year under-budgeting if budgets are built, in part, incrementally on prior years' budgets before their true sizes are known.

While the best-managed school systems and businesses may experience occasional post-year unpaid obligations, the policies and training outlined above should minimize recurrence in the long run. Beginning this year, the Assistant Superintendent is requiring that all encumbrances be entered into the accounting system by a date certain (May 1, 2007), in order to track open obligations more closely. Staff are also required to forward invoices, packing slips or other proof of delivery to the Business Office within 3 days of receipt. While no system is foolproof, especially in such a large department, these

immediate efforts should ensure that FY2008 will not begin with a large carry over from FY2007. Appropriate reserves should be established for likely carry-forward expenses, but on a much smaller level than previously experienced.

SPECIAL EDUCATION

The topic of Special Education as a budget concern has been a recurring one in recent years. Lexington schools serve approximately 6,200 students, of which approximately 1,100 have approved Individual Education Plans (IEPs) to provide services to ensure their continued educational advancement, and 100 have Form 504s to comply with the Americans with Disabilities Act. An additional 200 children in the age ranges of 3-5 and 18-21 have IEPs that are not reflected in the overall 6,200 student number.

Most often, special education services are provided within the district by district personnel, but approximately 117 children are currently placed in out-of-district settings. The Director of Student Services and the School Committee have proposed steps to reduce the number of out-of-district placements, with their attendant large costs, by enhancing in-district programs at a lower cost. However, in-district services still represent a large portion of the budget.

The Lexington Schools utilize a program called Eutactics to develop and track IEPs. But since the system is only two years old, the full benefits of a central system have yet to be realized, and it is unclear how accurate or current the detail within the system is. Unfortunately, there is insufficient dedicated staff to fully maintain the system to realize its potential.

The budget for special education is developed using the current students in Eutactics as a base, and evaluating current staff capacity. But new students may move into the district and current students may be identified as needing services or additional services, which may create a budget impact. As services are procured for that student – through a consultant or hiring additional staff – the Business Office should be alerted to that additional cost through a process that is modeled on the purchasing process outlined above.

Special education remains a difficult budget area to monitor because it is so wide-spread, has so many individuals involved, and can be very difficult to quantify on a purely numeric basis, which is what is required for accurate budgeting. During discussions with the Student Services Director, she raised the need for consistent leadership in the department as a major issue for her department. She also feels a need for additional support, particularly in the areas of an Assistant Director and someone to maintain the information in Eutactics.

FURTHER AREAS FOR EXPLORATION BY THE COMMITTEE

After only two months of work, our committee has just begun to explore the financial situation of the Lexington Schools. Here are a few areas which we have identified for further review.

- support the Assistant Superintendent in developing policies for purchasing, accounts-payable policies and personnel changes

- further explore the capabilities of MUNIS
- identify financial processes within the school department which are duplicative
- discuss the revenue process for the schools, including grant tracking, the use of reserves and the possibility of using revolving funds

In addition, even after completing our work on the two first-priority elements of our charge, which will require a significant amount of additional time and effort, we have the other elements of our charge of which we postponed even beginning our investigations. They include matters such as
- defining, redefining, or refining what is meant by an FTE;
- dealing with the issue of what kinds of reports would help the Superintendent, the School Committee, and the people of Lexington better understand school finances; and
- defining what kinds of year-to-year benchmarking data should be produced and preserved to facilitate on-going comparisons and accountability.

CONCLUSION

The financial dealings of the Lexington School Department are complex and varied, yet no more so than those of other municipalities, or even private business. We look forward to continuing our work to understand the current structure and act as a resource in the development of much-needed changes to the Schools' financial operations. Once the changes are implemented, school managers at all levels will have better processes to use and better training to properly use the processes and the resultant information. The end result will be that better information can be provided to Town Meeting and to the Lexington taxpayers so they can be assured that School funding is well-spent and documented with consistency and transparency. While this cannot be accomplished overnight, it should be achievable. We see that Senior Leadership is dedicated to that goal. If the effort is given the time and resources that will be required, that goal can be achieved.

APPENDIX A – CHARGE OF THE SCHOOL FINANCIAL REVIEW COMMITTEE

The Committee Formed Jointly by the Lexington School Committee and the Superintendent to
Review Financial Operations and Financial and Statistical Reporting
Adopted January 10, 2007

1) **Background**—In July of 2005, the Lexington School Superintendent and School Committee received two pieces of unexpected financial information in rapid sequence: there were approximately $500K worth of unpaid bills for FY2005 and there was a likely budget deficit for FY2006 of approximately $850K (after the Superintendent increased school lunch fees).

The Superintendent and School Committee instituted controls that included monthly financial status reports to the Committee and the first known implementation of formal School Committee votes to authorize transfers between budget lines in excess of $50,000. The Assistant Superintendent for Finance and Business also instituted tighter internal spending controls.

In concert, these controls were effective: unpaid bills for FY2006 were reduced to a net of $37K and, although there is a large FY2007 increase for out-of-district SPED expenses, that possibility had been anticipated before the FY2007 budget was set, and appropriate contingency agreements were put in place with the Selectmen and the Appropriation Committee for handling that kind of unpredictable increase.

The Superintendent and the School Committee seek to further the system's ability to do forecasting and control expenses. In addition, they seek more timely access to financial data, student and employee census data, and resource utilization data, by department. They also seek to develop reports that will facilitate year-to-year comparisons and employ uniform definitions of such terms as "FTE."

2) **Charge**—The Committee will perform these functions:

a) Review the schools' "financial operations" (understood here and hereafter to include financial and statistical reporting as well) to gain an understanding of
   - how they function,
   - how they acquire and pass information,
   - how they control expenses,
   - the level of compliance with the state Uniform Massachusetts Accounting System (UMAS), statutes governing the handling of revenue and expenditures for all funds, and state reporting expectations (Division of Local Services and the Department of Education),
   - how well the information they can supply meets the needs and expectations of the Superintendent and School Committee, and
   - other reports/information they can provide.

b) Make recommendations concerning the adequacy, appropriateness, and improvement of the schools' financial operations. Items the Committee should consider include
   i)   general financial management including the adequacy of staffing for the required functions and workload;
   ii) the adequacy of the (financial, database, statistical, and other modeling) software used, including its compatibility with regulatory standards and its ability to produce statutory reports and that information required by the Superintendent and School Committee;
   iii) whether the school system employs and enforces adequate controls to guard against unexpected expenses and whether the system should make some provision for handling system and vendor errors discovered after books are closed for the fiscal year;
   iv) whether the school system has adequate mechanisms in place for projecting budget needs when budgets are developed and, later, to allow the Superintendent and School Committee to assess expenses, encumbrances, and projected expenses against budgeted amounts on a timely, continuing basis;
   v)   whether communication between the Finance Department and other departments is adequate, and, if not, what additional mechanisms and requirements would make it so; and
   vi) what kinds of statistical information should be kept on a continuing basis to provide consistent benchmarks for year-to-year comparisons of the schools' financial operations:
        - breakdowns by what categories,
        - whether to use inflation-adjusted data,
        - how to provide data more straightforward and stable than Department of Education reporting,
        - how to define and handle the schools' portions of shared expenses across the changes in the composition of shared expenses that occur from time to time, and
        - how to define "FTE" and break down and report FTEs and headcount.

3) **Timeline**—The Committee should complete its work on items iii) and iv) of part b of the charge in late March. If that is not possible, the Committee should notify the School Committee and Superintendent at its earliest convenience.

   The Committee should define a schedule for addressing the remaining elements of the Charge and reporting both progress and recommendations to the School Committee and the Superintendent.

4) **Composition**—The Committee shall be composed of
   - the schools' Assistant Superintendent for Finance and Business,
   - the town's Comptroller/Finance Director,
   - two School Committee members,
   - two Lexington residents with substantial financial management backgrounds, at least one of whom is the Controller (or Comptroller) for a firm with a sizeable operational budget, and
   - a liaison member from the Appropriation Committee.

APPENDIX B – SCHOOL FINANCE OPERATION ORGANIZATION CHART

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                        ┌──────────────────────────┐
                        │    School Committee      │
                        │     Superintendent       │
                        └──────────────────────────┘
                        ┌──────────────────────────┐
                        │ Assistant Superintendent │
                        │    for Finance and       │
                        │        Business          │
                        └──────────────────────────┘
        ┌──────────────────────────┐
        │   Assistant to the       │
        │ Assistant Superintendent │
        │  Procurement/Bid Support │
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| Business Office (no supervisory staff) | Transportation – No dedicated staff. Regular Ed. – Fee and Mandatory Special Education | Facilities Director Capital, Rental, Maintenance and Cleaning | Food Service Director Food Service Contractor School Lunch | Risk Management |

Business Office branch:
- Accounts Payable Office
  1 Accounting Manager
  (non-supervisory)
  2 Accounts Payable Clerks
- Payroll
  1,000+ person bi-weekly payroll
  2 Payroll Clerks

Facilities Director branch:
- Administrative Assistant
- Facilities Manager
- Assistant Director Technical Services
  Maintenance Staff
- Assistant Director Custodial Services
  Custodians

M.G.L. c.30B Procurement of Supplies and Services

Procurement Procedure Estimated Contract Amount	Sound business practices.[1] **Under $5,000**	Solicit three written or oral quotes. **$5,000 to $24,999**	Sealed bids or proposals. (M.G.L. c.30B, §§5 or 6). **$25,000 and over**
Advertising Required	No.	No.	Advertise once in a newspaper of general circulation at least two weeks before bids or proposals are due, **and** post a notice on your jurisdiction's bulletin board or website for two weeks before bids or proposals are due. If $100,000 or more, advertise once in the *Goods and Services Bulletin*.
Award contract to: Written Contract[4]	Responsible[2] person offering a competitive price. No.	Responsible person offering the lowest price. Yes. Yes.	Under §5, the responsive[3] and responsible bidder offering the lowest price. Under §6, the most advantageous proposal from a responsive and responsible proposer taking into consideration price and evaluation criteria.
Maximum Contract Term[5]	Three years, unless majority vote authorizes longer.	Three years, unless majority vote authorizes longer.	Three years, unless majority vote authorizes longer.

[1] This office interprets sound business practices to mean periodically checking price lists or seeking price quotes to ensure that you are receiving a competitive price for the supply or service.

[2] M.G.L. c.30B, §2 defines a responsible bidder or offeror as "a person who has the capability to perform fully the contract requirements, and the integrity and reliability which assures good faith performance."

[3] M.G.L. c.30B, §2 defines a responsive bidder or offeror as "a person who has submitted a bid or proposal which conforms in all respects to the invitation for bids or request for proposals."

M.G.L. c.30B, §17(a) states "All contracts in the amount of [$5,000] or more shall be in writing, and the governmental body shall make no payment for a supply or service rendered prior to the execution of such contract."

[5] M.G.L. c.30B, §12(b) states "Unless authorized by majority vote, a procurement officer shall not award a contract for a term exceeding three years, including any renewal, extension, or option."

Source: State Office of the Inspector General

APPENDIX D – PURCHASING FLOW CHARTS AND GUIDANCE

I want to Acquire a Supply or Service

Does Procurement Law Apply?

YES

Is the Purchase over $25,000?

NO

Follow Best Business Practice

YES

Is the Purchase over $5,000 and under 24,999?

Using approved vendors

Contact Business Office for document assistance.

Obtain Three Written Quotes

Enter Requisition into MUNIS

Verification by Accounting

Purchase Order created and saved in MUNIS

Accounting Verification Process

Vendor Copy reviewed and signed by Asst. Superintendent

Vendor copy mailed, internal distribution/filing of 5 others

The procurement requirements are outlined in [Charts on Local Public Procurement Procedures](). The Accounting Staff has been trained to know what is exempt and what needs the immediate attention of the Assistant Superintendent. There are specific rules around Special Education, Emergency Procurement, and exempt supplies and services.

"Chapter 30B establishes three sets of procedures for awarding supply and service contracts. The specific procedures you will use depend on the dollar value of the contract.

Contracts under $5,000. Use sound business practices.[7] The law does not require formal competition for these small purchases. We recommend that you periodically solicit price lists or quotes to ensure you are getting favorable prices.

Contracts between $5,000 and $24,999. Seek price quotes from at least three vendors and award the contract to the responsible vendor offering the supply or service needed for the best price.[8] See Chapter 3 for more information on procuring supplies or services using quotes.

Contracts of $25,000 or more. Conduct a formal advertised competition using sealed bids or proposals. In a bid process, you award the contract to the qualified bidder who meets your specifications and offers you the best price.[9] In a proposal process, you award the contract to the offer or submitting the most advantageous proposal, taking into consideration your specified evaluation criteria as well as price.[10] See Chapters 4 and 5 for more information on soliciting bids and proposals.

For most procurements, the best price is the lowest price from a responsible and responsive offer or. For a revenue-generating contract, however, the best price is the highest price offered by a vendor through a quote, bid, or proposal process. " (http://www.mass.gov/ig/publ/30bmanl.pdf, page 12 of 166)

"An agreement for the provision of special education pursuant to M.G.L. c.71B and regulations promulgated pursuant thereto. [M.G.L. c.30B, §1(b)(8).]

This exemption applies to direct services delivered to children with special needs, such as transportation, counseling or education under an individual education program, as well as to any supplies used by children with special needs as part of an educational program. Other supplies and services, however, are not exempt simply because they are procured by the special education department. For example, office supplies or computers to be used for office administration would not fall under this exemption."(http://www.mass.gov/ig/publ/30bmanl.pdf, page A-1)

Contracts with physicians, dentists, and other health care individuals or persons including nurses, nurses' assistants, medical and laboratory technicians, health care providers including diagnosticians, social workers, psychiatric workers, and veterinarians. [M.G.L. c.30B, §1(b)(16).]

This exemption applies only to services that could reasonably be restricted exclusively to physicians, dentists, and other health care individuals or entities. Other health care-related service contracts are not exempt from Chapter 30B simply because you select a physician, dentist or other health care individual to perform the service. (http://www.mass.gov/ig/publ/30bmanl.pdf, page A-2)

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                    ┌──────────────────┐
                    │   Accounting     │
                    │  Verification    │
                    │    Process       │
                    └──────────────────┘
                              │
                              ▼
```

NO, over   NO, under
$25.000 $5,000

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┌──────────────────┐      ◇ Is the Purchase ◇      ┌──────────────────┐
│   Assistant      │◄─────   over $5,000 and   ────►│   A/P Clerks     │
│  Superintendent  │         under 24,999?          │  review, budget, │
│  develops RFB    │              │                 │    account       │
│  or RFP required │              │                 │    number,       │
│  for Procurement │            YES                 │    vendor        │
└──────────────────┘              │                 │  information     │
         │                        ▼                 └──────────────────┘
         │              ┌──────────────────┐                │
┌──────────────────┐    │   Accounting     │                │
│  Procurement     │    │  Manager reviews,│                │
│  Process Followed│    │  Quotes, budget, │                │
│  and Contracts   │    │  account number, │                │
│  Issued          │    │    vendor        │                │
└──────────────────┘    │  information     │                │
         │              └──────────────────┘                │
         │                        │                         │
         │                        ▼                         │
         │              ┌──────────────────┐                │
         └─────────────►│   Purchase       │◄───────────────┘
                        │   Order Created  │
                        │   and saved in   │
                        │   MUNIS          │
                        └──────────────────┘
                                 │
                                 ▼
              ┌──────────────────┐        ┌──────────────────┐
              │ ALL Vendor Copies,│───────►│  Vendor Copy     │
              │ quotes, contracts,│        │  Mailed, Internal│
              │ etc. reviewed and │        │  distribution and│
              │ signed by Asst.   │        │  filing of 5     │
              │ Superintendent.   │        │  copies          │
              └──────────────────┘        └──────────────────┘
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Invoice Arrives
from Vendor

Packing Slip with
Receiving Copy
arrives signed
from Department

Match by

A/P Staff

Invoice and Packing
slip matches
Purchase Order

A/P Staff Prepare
Warrant Batches
for review and
approval

Warrant Batch
Completed

If documentation is improper or
omitted it is returned to A/P staff
for correction.

Asst. Superintendent
determines payment
authorized & approves

Warrant Batches
Ready for School
Committee
Signature

Signed Warrant Batches are
sent to Town Comptroller for
final review and approval for
payment, checks cut, and sent
to vendors.